

PART 611-6: FINANCING

The *Transportation Equity Act for the 21st Century* included new language devoted to Metropolitan Planning (Sec. 1203). One provision relates to Financial Plan requirements of Long Range Plans.

A financial plan that demonstrates how the adopted long-range transportation plan can be implemented, indicates resources from public and private sources that are reasonably expected to be made available to carry out the plan, and recommends any additional financing strategies for needed projects and programs. The financial plan may include, for illustrative purposes, additional projects that would be included in the adopted long-range transportation plan if reasonable additional resources beyond those identified in the financial plan were available.

While it is necessary to meet federal requirements, a financial plan is more important from a state perspective. It is unwise to over-program, as public expectations are raised to a level that cannot possibly be met. In addition, the state needs to know the level of federal funding likely to be available over the long term, in order to anticipate the level of match requirements that must be available from state and other sources.

The financial analysis requirements for the Long Range Plan are not as stringent as those for the TIP. A financial constraint analysis, which considers cost estimates for individual projects by funding category, is required in the TIP. This type of analysis is possible in the short term, as most projects have been selected, better cost estimates are available, and more is known about federal funding.

Over the long term (20 years), smaller individual projects have not been selected, and assumptions concerning availability of federal funds must be made. Therefore, the Long Range Plan analysis provides less detail than the TIP.

6-1 FEDERAL HIGHWAY PROGRAM FUNDING

Available FHWA Funds

TEA-21, a six-year Act, provides a consistent source of highway funds through 2003. Two years of funding remain under the Act.

Based on the State's receipt of Federal Highway Funds during the last four years, the TIP estimated the funds to be provided by FHWA for the remainder of TEA-21 to be \$170 million per year. This estimate is based on the TEA-21 guaranteed levels adding in expected Realigned Budget Authority (RABA) and discretionary funds. The level of funding available after FY 2003 is actually unknown since TEA-21 expires in that year. However, history indicates that new federal transportation legislation is likely to increase funds to the State. Therefore, it is appropriate to assume that the current TEA-21 funding levels will continue through 2020.

With an 80% federal 20% state match, the required state funds needed to match the federal funds is \$45 million each year. This makes the total funding available for the highway program to be about \$215 million annually.

Based on this estimate, the total funding available to the state through FY 2020 from the Highway Capital Program is over \$4 billion. Even at this level, there will not be sufficient funding to meet the highway needs and improvements desired by Rhode Islanders. The TIP for 2001-2006, which is based on this funding level, excluded and delayed implementation of many requested projects due to lack of funds.

Advanced Construction

In order to maximize the use of available FHWA funds, Rhode Island utilizes the financing technique known as Advanced Construction. Federal regulations require the authorization of all federal highway funds necessary to complete a project at the time of project commencement unless the state utilizes Advanced Construction. Most of the TIP projects are multi-year in nature; so that under normal procedures federal funds are tied up in projects that won't use the funds for months and maybe years into the future. Large multi-year projects can greatly reduce the amount of funds available for smaller projects since the total amount of federal funds available to the state on an annual basis is limited.

Advanced construction is a financing tool where the state is able to phase the federal funding to match the anticipated annual project need. Typically, federal funds in the first year for Advanced Constructed projects are authorized only for expected expenditures during that year. In future years, federal funds are applied to projects to cover each year's anticipated expenditures. The application of federal funds in future years is know as Advanced Construction Conversion.

The risk in Advanced Construction is that if federal funds are reduced in future years, the state may not be able to obtain federal reimbursement immediately for project expenditures. To limit the state's liability for Advanced Construction, Rhode Island has chosen to restrict itself to use of \$25 million of total Advanced Construction for the annual Highway Program. As Advanced Construction projects are converted by application of federal funds, new projects are started with Advanced Construction in an equal amount.

Rhode Island has embarked on two major projects that could not be funded without the use of Advanced Construction, the Relocation of I-195, and the Quonset Access Road. Rhode Island's annual allocation of federal funds is insufficient to fully fund these projects in any one year. Therefore, the TIP allocates funds for these projects annually in anticipation of the project's multi-year expenditure schedule. The Advanced Construction for these projects are not subject to the state's self imposed \$25 million limit. Other major projects such as the Route 6/Route10 bridges, the replacement of the Washington Bridge and the rehabilitation/replacement of the Sakonnet River Bridge may also be started with Advanced Construction depending on the financing plan developed for those projects.

Federal Highway Program Funding Challenges

Four major projects need to be implemented in the next few years to address State highway system needs. These multi-million dollar multi-year projects are listed below:

Quonset Access Road, Phase II
Sakonnet River Bridge Repair/Replace
Washington Bridge
Route 6/Route 10 Bridges

At the anticipated State/Federal funding level, the state cannot include all of these projects in the annual Highway Program. A funding plan needs to be developed which identifies alternate financing approaches to some, if not all of these projects. The plan should consider financing tools such as Grant Anticipation Notes, Tax Financing Districts and/or user fees (tolls) for funding these projects.

Another challenge in funding the Highway Program is obtaining the state match required for use of the FHWA funds. These federal funds must be matched in varying amounts with state funds, generally in a ratio of 80% federal and 20% state. For the Highway Program, the state has traditionally used General Obligation bonds for the state's project contribution. Bond revenues are placed in a special fund called the Highway Fund from which project payments are made. The Highway Fund is replenished with reimbursements from the federal government for a percentage of eligible expenditures.

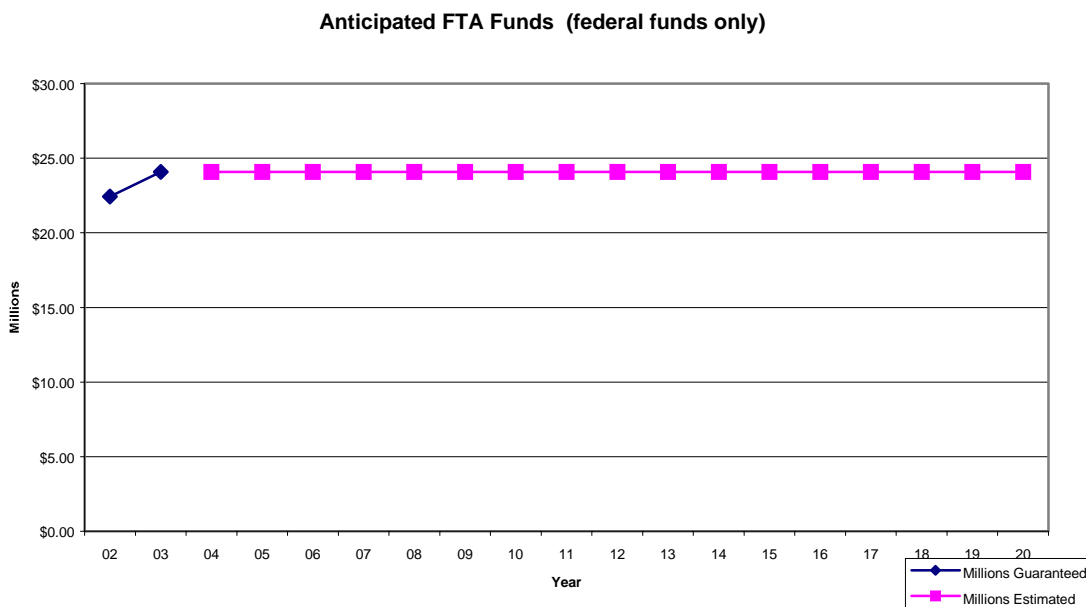
Unfortunately, reliance on bonds to provide the Highway Program match has resulted in a heavy burden for the state: debt service payments of over \$40 million per year. In order to reduce the growth in debt service and to limit the state's bonded indebtedness, the Capital Budget limits highway bond issuance to \$30 million per year. An additional \$15 million is needed each year to provide the state match to federal highway projects based upon federal highway funds estimated to be available.

In the short term, the match requirement can be met through "gas tax" revenue, the sale of excess real estate, and the use of the toll credit provisions of TEA-21, which allow states to increase, to a limited extent, the federal project share to 100% of project cost. Within the next few years, the surplus of "toll credits" available to Rhode Island will be exhausted and, with both debt service and RIDOT operational costs forecast to increase, there will be little "gas tax" available for capital projects. An additional source of funds for matching federal funds needs to be identified. Options for consideration include user fees (tolls), funds from the sale of excess roadway right-of-way property, and/or motor vehicle licensing or registration fees, which presently are deposited into the state's General Fund and used for non-transportation purposes.

6-2 FEDERAL TRANSIT PROGRAM FUNDING

Available Federal Transit Funds

TEA-21 also provides a consistent source of transit funds through 2003. Federal Transit Administration (FTA) funding is somewhat more difficult to estimate than FHWA funding, for several reasons. First, Congress provided for one level of funding in TEA-21 but guaranteed a lesser amount. The annual difference is about \$1.4 million through 2003. Assuming consistent federal funding levels through 2020 the average available annually will be about \$24 million.



Over 90 percent of Rhode Island's annual formula federal funding comes to an "urbanized area" which includes portions of Massachusetts. Each year, the two states must negotiate a sub-area allocation with the Commonwealth of Massachusetts, to determine the actual "split" of the available urbanized area funds between areas in the two states. Under an agreement covering FY 2002 and FY 2003, Rhode Island will receive at least 80 percent of the urbanized area formula allocation. This plan assumes that future split of funds will continue to provide 75-80 percent of the "urbanized area" formula for Rhode Island.

In addition to urbanized area funding, RIPTA receives federal funding under other FTA categories for capital projects, transit for elderly and persons with disabilities, and non-urbanized areas. The match required varies from program to program. Capital, planning, and administration require a match of 20 percent; operating assistance funds requires a 50 percent match. Rhode Island expects to receive approximately \$1.5-2.0 million annually from these other FTA categories.

For the past several years Rhode Island has received discretionary bus funding for the purchase of buses and the construction of bus facilities as well as funding for new service initiatives (Access to Jobs). This source of funding requires a 20 percent match for capital funds and 50 percent for service initiatives.

6-3 STATE FUNDING

Motor Vehicle Fuel Tax

The state levies a 28 cent per gallon tax on motor fuels. At one time most of this so called "gas tax" revenue was deposited in the General Fund. During the past few years, increasing amounts have been directed to transportation needs. As of FY 2001, all but 1.75 cents of the gas tax is directed to transportation expenditures.

The table below shows the FY2002 anticipated “gas tax” distribution based on current law and yield estimates:

**ESTIMATED “GAS TAX” RECEIPTS
Fiscal Year 2002**

<i>Program</i>	<i>Cents</i>	<i>Receipts</i>
RIDOT – Roads and bridges	20.50	\$96,350,000
RIPTA – Bus transit	6.25	29,375,000
Elderly and disabled transportation	1.00	4,700,000
General Fund	0.25	1,175,000
<i>Total</i>		<i>\$131,600,000</i>

Under current state law, the remaining 0.25 cent will be devoted to transportation in FY 2003.

RIDOT’S Use of “Gas Tax” Funds

The fuel tax allocated to RIDOT pays for debt service on bonds issued for highway improvements and funds the Department’s annual operating costs. Operating costs include nearly all Department expenses not part of the Highway Improvement Program and not otherwise covered by federal grants. The fuel tax pays for such work as snow removal, litter pickup, pavement patching, mowing and minor road maintenance and repair as well as the agency’s administrative costs. When sufficient funds allow, the fuel tax is used to supplement the Highway Improvement Program providing an additional source of state funds to match FHWA funds for capital projects. This supplemental match has been important because, as discussed in the prior section, \$45 million is estimated to be needed annually to match available FHWA funds, but only \$30 in state bonds is provided annually via the Capital Budget for matching FHWA funds.

RIDOT’s expenditures for debt service and operating costs are also forecast to increase each year. The portion of the “gas tax” RIDOT must use for debt service increases each year as additional bonds are issued to match FHWA funds. RIDOT’s operating budget increases each year due to inflation.

Table 6-1 shows the funds expected to be provided to RIDOT from the “gas tax” through 2010 (as well as 2020) in million dollars. The table also shows the expected RIDOT expenditures out of the “gas tax” (debt service and operating costs) for the same period. “Gas tax” receipts are projected to increase slightly each year due to an expected increase in amount of gasoline sold in the State. If an energy crises occurred or fuel sales declined for some other reason such as the emergence of energy efficient cars, the yield of the “gas tax”, and the funds expected to be available to RIDOT could be significantly reduced. The last column of Table 6-1 shows the amount of “gas tax” funds available to RIDOT to help supplement bond funds as match for the FHWA program. This column is calculated by subtracting the anticipated debt service and projected operating costs from the “gas tax” funds forecast to be available to RIDOT.

Table 6-1

**“Gas Tax” Funding Available to RIDOT versus
Estimated Operational, Debt Service, and Match Funding Needs**

Year	Gas Tax for RIDOT Purposes	Debt Service*	RIDOT Operations Budget	Available for Highway Fund Match
(figures in millions)				
2001	91.0	43.5	39.9	7.5
2002	96.4	43.0	45.3	8.0
2003	98.2	44.2	46.7	7.3
2004	98.9	45.5	48.1	5.3
2005	99.6	47.2	49.5	2.8
2006	100.3	48.7	51.0	.6
2007	101.0	49.1	52.6**	(.7)
2008	101.7	51.0	54.1**	(3.4)
2009	102.5	52.4	55.8**	(5.7)
2010	103.2	51.7	57.4**	(6.0)
..
..
2020	110.8	50.2	77.2**	(16.7)

*Assumes \$30 million in bonds issued per year

**Insufficient gas tax to meet RIDOT’s operational costs

The table shows that by 2007 there will be insufficient gas tax funds coming to RIDOT to pay debt service and the projected operating costs of the Department. Increases in RIDOT projected operating costs shown in the table are based only on an inflation factor, and assume no significant expansion of effort. Additional state funding will be needed to fund any increase in operating costs due to program expansion such as commuter rail operations, which are not likely to be eligible for federal funding.

Table 6-1 shows that a source of funds other than the “gas tax” must be used to supplement the bond funds to adequately match the anticipated federal funds. By 2006, there will be virtually no funds from the gas tax available to provide match to federal funds. Additional bonding is not the answer as it exacerbates the debt service problem. Clearly, a structural problem exists where there will be insufficient funding to meet RIDOT’s operating costs and federal match needs, primarily because of the high level of debt service. This financial problem must be further analyzed and addressed.

General Revenue Bonds

Annually the state has been issuing \$30 million in bonds to match FHWA capital funds and to pay for some 100 percent state costs. The annual average match funding for future anticipated federal highway funding is estimated to be \$45 million. A somewhat higher amount would have to be raised if bonding continued, for match and some additional non-match needs. Reliance on bond funds for matching requirements is due to the demand on “gas tax” receipts for operating costs and debt service.

As Table 6-1 shows, after 2003, the amount of “gas tax” projected to be available for the highway program match quickly disappears. In no year is the “gas tax” projected to yield the approximate \$10 million necessary to meet the Highway Program matching requirements. After 2006, no “gas tax” funds are expected to be available for the Highway Program match. A supplement to the \$30 million per year in bond revenues is required in order to match expected federal highway funds. Increasing bonding is not an option due to the increase that would cause in debt service burden.

RIPTA also utilizes bonds to meet match requirements for the procurement of buses and construction of buildings. Transit bonding levels vary from year to year depending on the need for bus replacement and facility improvements. To take full advantage of FTA federal funds estimated to be available could require up to \$4 million of state matching funds. Unlike the highway program, transit bonds are not regular (annual) and not of a consistent amount. About \$4.8 million in previous voter approved bonds remain available, and a \$2.86 million request is projected to be included on the ballot (November 2002) for bus purchases. Since 1985, there have been no bond issues for non-RIPTA transit related projects.

Bond debt for RIPTA is approximately \$1.3 million per year for the next few years and may increase as the state issues the available bonds. RIPTA makes quarterly payments for debt service.

Another major source of capital match for RIPTA is the Capital Revolving Loan Fund. This Fund was capitalized at \$2.9 million and is used by RIPTA to borrow money from itself and repay the Fund at a rate of no less than 1 percent below the market rate. Other sources of match currently used are “gas tax” proceeds (operating funds) to meet certain capital match and preventive maintenance requirements; RIDOT bonds for CMAQ transit projects; and soft match under ISTEA Section 1044.

The combination of sources is not enough to meet RIPTA’s present annual match requirements. This can cause delay in project implementation and provision of services. RIPTA has requested additional match from the state to allow these projects to proceed.

RIPTA has received, almost annually, demonstration grants to purchase buses, build facilities and fund new services. These funds are over and above the annual formula allocations and need other sources of match to accept this federal fund source.

Federal Capital Funding to Meet Operating Costs

Preventive Maintenance

Over the last several years, RIPTA has relied more and more on preventive maintenance funding to prolong the useful life of its bus fleet and to support operations. In TEA-21 this category of funding replaced the operating assistance provided under ISTEA. FTA provides an 80 percent federal share for use of this category of capital funding for certain operating expenses. It is estimated that RIPTA will use \$2.8 million in FY 2002 federal preventive maintenance funds.

Preventive Maintenance Funding

FY 1999	\$ 2.6 million
FY 2000	2.3 million
FY 2001	5.0 million
FY 2002	<u>2.8</u> million
	\$12.7 million

Operating Budget

For FY 2002, RIPTA's operating budget projects reliance on state and federal funding, and passenger fares, as follows:

Fare Revenue*	\$ 11,098,881	20.9%
Special/Other Revenue	589,528	1.1%
State "gas tax" Subsidy**	30,738,000	57.9%
Federal Subsidy	<u>10,646,050</u>	<u>20.1%</u>
	\$ 53,072,459	100.0%

* Includes cash fares, RIte Care passes, tokens, RIPTIKS, passes, and monthly passes

** Includes funds for subsidized rides for the elderly and disabled.

Federal and state payments account for 78 percent of all RIPTA revenue. These two sources of funding have been increasing on an annual basis. RIPTA's FY 2002 cost recovery is approximately 32 percent and holding constant. Cost recovery represents additional sources of revenue beyond the Fare Revenue category above, and includes funds RIPTA receives for special fare programs and subsidized rides for the elderly and disabled.

To fund a high quality system to be expanded to more cities and towns in the state, new dedicated sources of state funding will be required as well as to offset dependency on federal capital funding for operating needs. With system expansion, more buses will be needed, more drivers, mechanics and support personnel and possibly expansion of existing facilities to maintain and house the growing fleet. With fleet expansion, RIPTA will need more regular bond or other state sources to meet the match requirements to replace the existing fleet and to add new vehicles and equipment for new services.

6-4 PROGRAM FINANCING

Tables 6-2 and 6-3 show Rhode Island's projected program (the first five years are from the adopted TIP) and the anticipated allocation of FHWA and FTA funding that will be available through 2020, with required match. The funds are displayed by major category. Funding is not identified for some items but will come from the "future projects" line item when identified. Again, some FTA funds are subject to negotiation with Massachusetts.

Rhode Island received increased federal funding under TEA-21 but consequently this action has created a state funding shortage to meet the required match. There are not sufficient match funds to cover the highway and transit programs.

Three alternatives are available to the state, with variations on these alternatives (to be analyzed further):

1. Take no action and continue as at present. This alternative may require the return of federal funding due to lack of match and would not support the program.
2. Find additional supplemental match funding for the RIDOT and RIPTA programs. Possible sources include state revenues, local share, and private partnerships. Under this alternative, RIDOT and RIPTA would continue paying the bond debt from gasoline tax proceeds.
3. Relieve RIDOT and RIPTA of bond debt and allow both agencies to function on a pay-as-you-go basis. To meet this alternative, the state would have to find a new source of funds to pay off the bond debt while no longer issuing new debt. This major transportation-financing problem would then be resolved for the near future.

Each alternative can be supplemented by opportunities for innovative financing that can help with the match problem but will not make up the difference over the long run

